

Message Text

LIMITED OFFICIAL USE

PAGE 01 SANTO 04225 122104Z

72

ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

/173 W

----- 090888

R 121930Z OCT 73

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 9047

LIMITED OFFICIAL USE SANTO DOMINGO 4225

E.O. 11652: N/A

TAGS: EAGR, EFIN, EAID, DR

SUBJECT: BALAGUER RECOGNIZES INFLATION AS MAJOR PROBLEM

SUMMARY: IN A NATIONALLY TELEVISED SPEECH ON OCTOBER 10, PRESIDENT BALAGUER CITED INFLATION AS "THE WORST ENEMY OF THE COUNTRY'S DEVELOPMENT". HE (1) NOTED EFFORTS ARE BEING MADE TO INCREASE FOOD PRODUCTION, (2) REJECTED PLEAS FOR ACROSS THE BOARD SALARY INCREASES, (3) CALLED FOR MORE VIGOROUS ACTIVITY BY CODR PRICE CONTROL AGENCY AND (4) PROPOSED NEW TAXES ON MEAT AND SUGAR EXPORTS, THE PROCEEDS OF WHICH WOULD BE USED TO SUBSIDIZE PRICES OF BASIC FOOD ITEMS. THE SPEECH REPRESENTS A CHANGE IN BALAGUER'S ATTITUDE TOWARD INFLATION, WHICH HE PREVIOUSLY HAD CHARACTERIZED AS BEING NECESSARY TO THE DEVELOPMENT PROCESS. IT ALSO SHOWS HIS DETERMINATION

TO TAKE ACTION TO TRY TO SOLVE A PROBLEM WHICH PROMISES TO BECOME A MAJOR POLITICAL ISSUE HERE. ON THE OTHER HAND, THE SPEECH DOES NOT RECOGNIZE THE EXTENT TO WHICH DOMINICAN INFLATION IS CAUSED BY THE OVERLY RAPID EXPANSION OF CREDIT TO THE LOCAL PRIVATE SECTOR.

1. AFTER BEGINNING WITH A DISCUSSION OF THE DIFFICULT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SANTO 04225 122104Z

ELECTRICITY PROBLEM (SEE SEPTTEL), PRESIDENT BALAGUER DEVOTED

THE REMAINDER OF HIS OCTOBER 10 SPEECH TO THE PROBLEM OF INFLATION. SPEAKING FORCEFULLY AND WITH OBVIOUS CONCERN, HE SAID INFLATION HAD BECOME A VERY SERIOUS PROBLEM AND THAT HE WAS BEING PRESSURED TO TAKE A VARIETY OF STEPS TO RESOLVE THE SITUATION. HE NOTED THAT SOME OF THE SUGGESTIONS, SUCH AS A GENERAL INCREASE IN WAGES, HAD TO BE REJECTED BECAUSE THEY WOULD ONLY CAUSE MORE INFLATION. HE SAID THAT THE GOVERNMENT WAS PUSHING FORWARD VIGOROUSLY WITH MANY PROGRAMS TO INCREASE AGRICULTURAL PRODUCTION AND TO HOLD DOWN PRICES OF BASIC FOOD ITEMS. AMONG THE PROGRAMS HE SPECIFICALLY MENTIONED WERE CONSTRUCTING IRRIGATION CANALS, IMPROVING SEED VARIETIES, PROVIDING ADDITIONAL RESOURCES TO THE AGRICULTURAL BANK, IMPROVING THE ADMINISTRATION OF THE AGRICULTURE SECRETARIAT AND INCREASING THE ACTIVITY OF THE AGRARIAN REFORM AGENCY. PRESIDENT BALAGUER SAID A POSSIBLE INCREASE IN ASSISTANCE FROM AID IN THE COMING MONTHS COULD NOT ONLY IMPROVE THE TECHNICAL LEVEL OF DOMINICAN AGRICULTURE, BUT ALSO ACCELERATE THE PRODUCTION OF FOOD CROPS FOR THE COUNTRY'S LOWER CLASSES.

2. THE PRESIDENT ASKED THE DOMINICAN PEOPLE TO COOPERATE IN ATTACKING INFLATION AND SAID THE PRICE CONTROL AGENCY WOULD WORK MORE RIGOROUSLY TO LIMIT THE MARGINS WHICH MIDDLEMEN ARE RECEIVING. IN VEILED THREAT TO SHOP OWNERS WHO HAD PUBLICLY DISCUSSED CLOSING AS PROTEST AGAINST GODR'S PRICE CONTROL EFFORTS, BALAGUER SAID

THAT IF RIOTS RESULTED FROM SHOP CLOSINGS, POLICE MIGHT NOT BE ABLE TO KEEP CROWDS FROM DAMAGING STORES.

3. THE PRESIDENT NOTED THAT NOT ALL OF THE INCREASES IN WORLD PRICES HAD BEEN PREJUDICIAL TO DOMINICANS, AND THAT THE COUNTRY WAS CURRENTLY BENEFITING FROM RECORD HIGH PRICES FOR MOST OF ITS EXPORTS. HE SAID IT WOULD BE NECESSARY FOR THE MOST POWERFUL CLASSES IN THE COUNTRY TO MAKE SACRIFICES TO FAVOR THOSE IN MOST NEED. AS ONE WAY OF DOING THIS HE SAID HE WOULD SUBMIT A NEW TAX LAW TO CONGRESS (DETAILS REPORTED SEPTEL) WHICH WOULD TAX MEAT AND SUGAR EXPORTS WHEN PRICES FOR THOSE COMMODITIES WERE OVER THEIR MORE NORMAL LEVELS, I.E., \$.50 PER LB. IN THE CASE OF MEAT AND \$.07 PER LB. IN THE CASE OF SUGAR. THE PROCEEDS OF THESE TAXES WHICH COULD PRODUCE \$5-10 MILLION PER YEAR WOULD BE USED TO SUPPORT THE PRICE STABILIZATION INSTITUTE EFFORTS TO KEEP LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SANTO 04225 122104Z

PRICES LOW ON BASIC FOOD ITEMS.

COMMENT: PRESIDENT BALAGUER'S SPEECH INDICATES THAT HE NOW SEES INFLATION AS A MAJOR ECONOMIC PROBLEM AND AS A MAJOR POLITICAL ISSUE AS WELL EVEN IN THIS PRE-ELECTION PERIOD AND THAT HE IS DETERM-

INED TO TAKE ACTION TO CONTROL IT. THE EXTERNAL CAUSES OF INFLATION ARE UNDOUBTEDLY IMPORTANT, AND COMPLETE PRICE STABILITY IN THE DOMIN-

ICAN REPUBLIC WOULD BE IMPOSSIBLE AT THIS TIME EVEN WITH A MUCH MORE MODERATE EXPANSION OF BANKING SYSTEM CREDIT. NEVERTHELESS, WE ESTIMATE THAT DOMINICAN PRICES ARE RISING ROUGHLY TWO TO THREE TIMES THE RATE OF PRICES IN MOST OTHER COUNTRIES AND ONE MUST LOOK TO DOMESTIC CAUSES TO EXPLAIN THIS HIGHER RATE. THE SPEECH DOES NOT REVEAL A CLEAR UNDERSTANDING OF THE DOMESTIC CAUSES OF THE INFLATION THE DOMINICAN REPUBLIC IS EXPERIENCING. THE EMBASSY BELIEVES THE MAJOR DOMESTIC CUASE OF THE DOMINICAN INFLATION IS THE OVER-30 PER CENT ANNUAL RATE AT WHICH CREDIT TO THE PRIVATE SECTOR HAS BEEN EXPANDING DURING THE LAST TWO YEARS. EVEN AN ECONOMY GROWING AT OVER 10 PER CENT, AS HAS THE DOMINICAN ECONOMY, CANNOT ABSORB THOSE KINDS OF CREDIT INCREASES WITHOUT EXPERIENCING SERIOUS PRICE RISES. SINCE THE BASIC DOMESTIC CAUSE OF INFLATION IS NOT BEING ADDRESSED, IT IS UNLIKELY THAT INFLATION WILL ABATE HERE IN THE FORESEEABLE FUTURE.

HURWITCH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SANTO04225
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SANTO DOMINGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731035/aaaaazsb.tel
Line Count: 131
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 01 FEB 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01-Feb-2002 by martinjw>; APPROVED <21 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BALAGUER RECOGNIZES INFLATION AS MAJOR PROBLEM SUMMARY: IN A NATIONALLY TELEVISED SPEECH ON OCTOBER 10, PRESIDENT
TAGS: EAGR, EFIN, EAID, DR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005